



Answering the Call to Ensure Nassau County's Financial Integrity:

The Comptroller's Audit Advisory Committee

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May 2003

EMPHASIZING INTEGRITY: HIGHER EXPECTATIONS

Recent corporate accounting scandals in the midst of downwardly spiraling stock market returns have reminded Americans of the importance of maintaining integrity in financial reporting. In response, in 2002, Congress enacted the Sarbanes-Oxley Act. Sarbanes-Oxley requires all publicly traded companies to establish audit committees for the purpose of overseeing accounting and financial reporting processes and audits of financial statements.¹

In 2002, the Government Finance Officers' Association's Committee on Accounting, Auditing and Financial Reporting suggested that every state and local government also create an audit committee to "enhance the financial statement auditor's real and perceived independence."²

THE COMPTROLLER'S AUDIT ADVISORY COMMITTEE

In Nassau County, after years of financial mismanagement, taxpayers now expect--and deserve--accurate, objective budget information and financial reporting independent of political considerations. Nassau County Comptroller Howard Weitzman, with the

¹ Sarbanes-Oxley Act of 2002, 107 Pub. L. 204, 116 Stat. 745 § 301 (2002).

² See Gov't Finance Officers' Ass'n, Memorandum from the Enron Task Force, to the Committee on Accounting, Auditing & Financial Reporting (May 17, 2002) (on file with the GFOA). See also GFOA, Establishment of Audit Committees (1997 & 2002), (Comm. On Acc'ting, Auditing & Fin. Reporting Oct. 25, 2002), at 1.

cooperation of the county administration, is therefore establishing an Audit Advisory Committee that will meet at least quarterly to advise and assist him in executing his Charter internal control and audit responsibilities.³ The Committee will aid in ensuring that the county's financial statements and other audit documents are presented fairly and objectively.⁴

The Audit Advisory Committee Role

In the private sector, the provisions of Sarbanes-Oxley define the role of the audit committee. The primary role of a public company's audit committee is to directly appoint, compensate and oversee the work of its outside auditors in preparing or issuing the annual audit report.⁵ For state and local governments, the GFOA recommends a similar role for the audit committee.

Nassau County is ultimately responsible for the integrity of its financial statements. The audit committee's primary responsibility will "be to oversee the independent audit of [Nassau's] financial statements, from the selection [process] of the independent auditor to the resolution of audit findings,"⁶ including overseeing the preparation of the annual independent audit report and the issuance of and response to the auditors' management letter. As GFOA recommends, reports on audit findings by the Comptroller's Field Audit Bureau, agency responses and internal audit work plans will be made available to the audit committee.⁷ The Comptroller will ask the committee to prepare an annual report regarding its activities that can be made available to the public.⁸

Selection of Committee Members

Under Sarbanes-Oxley, each member of a public company's audit committee must be independent.⁹ At least one audit committee member must be a designated a "financial

³ The Comptroller must supervise all accounts to ensure financial control; audit all bills, invoices, and claims against the county; audit the accounts of any town or special district; and, annually audit all accounts of every county department. Nassau County, N.Y., Charter § 402 (1999).

⁴ A few other local governments in New York State, such as New York City and Erie County, already have established audit committees.

⁵ See, Sarbanes-Oxley Act of 2002, *supra*, n. 1, at § 301. A public company's audit committee is also charged with establishing procedures for (1) handling complaints related to the company's internal accounting controls, and (2) confidential, anonymous submission by employees regarding a company's questionable accounting practices.

⁶ See, Establishment of Audit Committees (1997 & 2002), *supra*, n.2, at 2.

⁷ *Id.*

⁸ *Id.*

⁹ No member may accept consulting, advisory, or compensatory fees from the company (other than in his or her capacity as a member of the board of directors), nor may he or she be affiliated with the company or its subsidiaries. See, *supra*, n. 1.

expert.”¹⁰ With respect to the members’ expertise in the public sector model, the GFOA emphasizes collective expertise:

The members of the audit committee collectively should possess the expertise and experience in accounting, auditing, financial reporting, and finance needed to understand and resolve issues raised by the independent audit of the financial statements. When necessary or otherwise desirable, members of the audit committee should be selected from outside the government to provide the needed expertise and experience.¹¹

The GFOA also recommends that the committee should be composed of no less than five and no more than seven members.¹²

The Comptroller’s goal is to establish a seven-person Advisory Committee comprised of the Comptroller and the County Executive (or their designees), and five qualified, independent, outside members. The Comptroller will select the five outside members with reference to both the Sarbanes-Oxley and GFOA standards. Members should have no conflicts of interest with county government nor hold a position in any political party or local government within the county. We will solicit recommendations for the five outside committee members from the presiding officer and the minority leader of the legislature, with the goal of selecting two members from these recommendations, and from Nassau County professional, business, and community organizations. The Comptroller or his designee will carry out administrative tasks necessary for the committee’s functioning. The County Executive or his designee will serve as a liaison to the county administration. We expect to have committee members in place by mid-summer, and have the first committee meeting in September. The committee will select one of the five outside members to serve as committee chair. Service on the committee by members will be *pro bono*; Nassau County officials serving on the committee will not receive compensation in addition to their regular salaries. All committee administrative expenses will be borne by the Comptroller’s Office.

Conclusion

We look forward to the additional expertise and support that the committee will provide in moving Nassau County further down the road toward fiscal recovery.

¹⁰ The “financial expert” must have, through education and experience as an accountant, CFO, comptroller, or principal accounting officer, (1) an understanding of GAAP and financial statements; (2) experience in preparing or auditing financial statements; (3) experience with internal accounting controls; and (4) an understanding of audit committee functions. Sarbanes-Oxley Act of 2002, *supra*, n. 1, at § 407.

¹¹ Establishment of Audit Committees (1997 and 2002), *supra*, n. 2, at 1.

¹² *Id.* at 2.